

# AUDIT MEMO

SUBJECT: Internal Control and Federal Compliance Deficiencies Reported	NO.: 07-01
REFERENCES: California Single Audit Report for Fiscal Year 2004-05	DATE ISSUED: November 2006

**PURPOSE:** This memo provides departments with the actions to be taken on findings reported in the fiscal year 2004-05 California Single Audit Report.

**BACKGROUND:** The Bureau of State Audits (Bureau) conducts an annual single audit of the state. As part of its audit, the Bureau identifies weaknesses in internal control and with federal compliance requirements. Individual departments with reported weaknesses are responsible for responding to the Bureau. The Department of Finance (Finance), consistent with its responsibility for the business policies and practices of the state, provides the leadership to ensure that such policies and practices are appropriate. Finance has assigned the Office of State Audits and Evaluations (OSAE), the responsibility to provide direction on statewide issues, and to monitor the corrective actions taken by the individual departments.

**ISSUES:** As part of its single audit of the state's fiscal year 2004-05 General Purpose Financial Statements, the Bureau reported a number of findings concerning internal control over financial accounting and reporting, and compliance with state requirements. Additionally, as a part of the fiscal year 2004-05 single audit, the Bureau audited federal grants and programs, and reported a number of findings concerning federal program controls and compliance.

**REQUIREMENTS:** In accordance with its responsibility to provide direction on statewide issues and to monitor the corrective actions taken, the OSAE is requiring departments to perform the following:

1. Review the *Internal Control Compliance and Issues Applicable to the Financial Statements and State Requirements* section of the fiscal year 2004-05 Single Audit Report. Identify those findings that pertain to your department and develop and implement a corrective action plan for each finding. OSAE will notify departments if they are required to periodically provide a corrective action status report until the findings are fully corrected.
2. Review the *Compliance and Internal Control Issues Related to Specific Grants Administered by Federal Departments* section of the fiscal year 2004-05 Single Audit Report. Identify those findings that pertain to your department and develop and implement a corrective action plan for each finding. Departments should monitor the status of their corrective action plans. OSAE will be requesting specific information on the findings' status as part of the state's continuing annual single audit. Additionally, the Bureau will be following up on any prior audit findings when conducting its fiscal year 2005-06 single audit.
3. For departments that have an internal audit unit, the *Standards for the Professional Practice of Internal Auditing* require auditors to follow up by ascertaining that appropriate action has been taken on reported audit findings, including the determination of whether actions taken remedy the underlying conditions. Accordingly, internal auditors should establish policies and procedures to regularly follow up on all of their department's single audit findings. These follow-up procedures should also be incorporated into the internal audit unit's biennial Financial Integrity and State Managers' Accountability Act (FISMA) audit.

Please distribute this Audit Memo to the appropriate staff within your organization. If you have any questions, please contact Janet I. Rosman, Assistant Chief, at (916) 322-2985, Extension 3103. A complete copy of the 2004-05 Single Audit Report can be obtained on our Internet site at:  
**[http://www.dof.ca.gov/fisa/osae/OSAE\\_Audit\\_Reports.HTM](http://www.dof.ca.gov/fisa/osae/OSAE_Audit_Reports.HTM)**.

***Original Signed By:***

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